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Date 11-9-95

Signature _____

SEP 7 1995

Employer Identification Number: _____
Key District: _____

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. For the reasons stated below, we conclude that you do not qualify for tax exemption under this section. Your protest rights are also explained below.

You were incorporated on _____ under the laws of the state of _____. Your Article of Incorporation states that your specific purpose is to provide financial assistance to rebuild minority-owned music businesses which were damaged or impaired as a result of the _____ riots in _____. You state that approximately _____ independent retail music stores were destroyed or severely damaged, and that they need help to rebuild their music businesses.

Your board of directors is comprised of _____ members. Each board member is a representative of a major music distribution company or a major record company. For example, one board member is from _____, another is from _____ and another is from _____. Your funding comes from these music distribution and record companies.

The help you provide to these independent retail music businesses that sustained losses during the riot is financial assistance. You will provide a maximum grant of \$_____ in the form of credit to each business. The credit, however, is only to be used at _____ for the purchase of music recordings and products.

Recipients of your financial assistance are selected by the board of directors. The only criteria to receive this grant is that the music business be damaged during the _____ riot. No advertisements of your program is done because you already knew which retail music store is in need of your financial assistance.

Section 501(c)(6) of the Code provides for the exemption from federal income tax of nonprofit business leagues, chambers of commerce, and boards of trade, whose net earnings do not inure to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such common business interest and not to engage in a business of a kind ordinarily carried on for profit. The regulations further require that a business league's activities be directed to the improvement of business conditions for one or more lines of business as distinguished from the performance of particular services for individual persons.

Rev. Rul. 56-65, 1956-1 C.B. 199, holds that a local organization whose principal activity consists of furnishing particular information and specialized individual services to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses, is performing particular services for individual persons. Such organization, therefore, is not entitled to exemption under section 501(c)(6) of the Code as a business league even though it performs functions which are of benefit to the particular industry and the public generally.

Rev. Rul. 72-211, 1972-1 C.B. 150, clarifies Rev. Rul. 56-65, supra, and holds that an organization formed to promote the interests of its members and persons or firms related to the building and construction industry by providing a plan room and news bulletin available to the entire industry qualifies for exemption under section 501(c)(6) of the Code. The Service stresses that one of the main reasons for exemption is the fact that the organization's facilities are open for use by all individuals and businesses in the industry, nonmembers as well as members.

Rev. Rul. 66-338, 1966-2 C.B. 226, holds that an organization formed to promote the interests of a particular retail trade which advises its members in the operation of their individual businesses and sells supplies and equipment to them is not exempt under section 501(c)(6) of the Code. The revenue ruling includes the fact that field representatives of the organization call on the members to consult with them and advise them on their individual business problems. The advice furnished includes assistance in planning modernization and layouts of the members' stores. The revenue concludes that the furnishing of consultation services provides the members of the organization with an economy and convenience in the conduct of their

individual businesses by enabling them to secure services more cheaply than if they had to secure them on an individual basis. Therefore, the activity constitutes the performance of a particular service for individual persons as distinguished from activities aimed at the improvement of business conditions in their trade as a whole.

Rev. Rul. 67-176, 1967-1 C.B. 140 describes a nonprofit organization formed to advance a given profession, to contribute to the welfare and education of students preparing for that profession, to furnish financial aid to member by grants and loans, to provide a vehicle for the expression of members' views, and to engage in other activities for the benefit of its members. One activity of the organization is the establishment of an emergency loan fund which enables a member to borrow small amounts of money interest free for short periods. In addition, a loan plan is sponsored in cooperation with commercial suppliers under which a member may borrow substantial sums for working capital and living expenses when beginning his practice. Under this plan, the member can obtain office equipment at a discount. The organization also sponsor a variety of insurance programs, a hotel-motel discount plan, and a car leasing plan for members. In concluding that the organization does not qualify for exemption, the Service states that "[t]he emergency loan plan, insurance plans, practice loan plan, hotel discounts, and car leasing plan serve primarily as a convenience and economy to members in providing financial aid in completing their professional studies and establishing themselves in practice, and are, therefore, the performance of particular services to members as opposed to improvement of a line of business."

Rev. Rul. 76-38, 1976-1 C.B. 157 describes a nonprofit organization formed to maintain the good will and reputation of credit unions in a particular State. Most credit unions are members. As its sole activity, the organization maintains a fund for assistance to credit unions that have financial difficulty or have become insolvent so that their members will not lose deposits upon liquidation. Interest free loans are made to such credit unions, and no restriction is placed upon their use of these funds. The credit unions are required to repay the organization if they are financially able to do so. The organization's income is from dues paid by the member credit unions. The Service notes that the organization makes loans to credit unions, both solvent and insolvent, that may be used in their general operations. There is no assurance that loans will be made solely to protect threatened depositors. Thus, the loan activities are not solely calculated to achieve the goal of improving the industry's image by protecting depositors. "On the contrary, the organization may, consistent with its stated

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policies, permit its money to be loaned on favorable terms to members in a manner that would provide little or no additional security to depositors. Such a loan policy provides a convenience or economy to members in their business, and is not an exempt activity under section 501(c)(6) of the Code and the regulations thereunder" the Service states. Thus, the organization does not qualify for exemption under section 501(c)(6) of the Code, the Service concludes.

In National Muffler Dealers Association v. U.S., 440 U.S. 472 (1979), the Supreme Court concluded that tax exemption under section 501(c)(6) of the Code is not available to aid one group in competition with another within an industry. In this case, the organization initially confined its membership to dealers franchised by Midas International Corporation (Midas) and its purpose was to establish a group to negotiate with Midas management. Despite the fact that the organization later amended its bylaws to eliminate its membership restriction, it neither recruited nor acquired a member who was not a Midas franchisee. The court concluded that the organization did not represent a line of business within the meaning of section 501(c)(6) of the Code.

The information in the file indicates that your sole activity is to provide financial credit to retail music businesses that had suffered losses in the ██████████ riot. The financial credit can only be used to purchase music recordings and products from your members - music distribution companies and record companies. Hence, this financial aid helps your members maintain retail outlets for your music recordings and products. As such, you are aiding your members, a limited group of music distribution and record companies, that are in competition with other music distribution and record companies which are not members of your organization. Similar to the organization in National Muffler Dealers Association, supra, you are aiding one group in competition with another within an industry. Thus, you do not qualify for exemption under section 501(c)(6) of the Code because you are not operating to benefit an entire line of business, the music business. See Rev. Rul. 56-65, Rev. Rul. 72-211, Rev. Rul. 67-176, and Rev. Rul. 76-38 supra. Rather you are operating to benefit just a select few companies within that line of business.

Even if you expand your membership to include all members of the music distribution and record companies, you do not qualify for exemption under section 501(c)(6) of the Code. Providing financial aid to your members' customers so they made purchase goods from your members is a particular service. This activity is not designed to improve the business conditions for the music

[REDACTED]

and recording industry, a line of business. Like the organization in Rev. Rul. 66-338, supra, your members are provided with a service that is beneficial to their businesses. Since your sole activity is to promote the business interest of your members, and since this service is considered to be a particular service for individual members, you are not defined as a business league within the meaning of section 501(C)(6) of the Code.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key district office. Thereafter, any questions about your federal income tax status should be addressed to that office.

You will expedite our receipt of your protest by using the following address:

Internal Revenue Service
Attn: [REDACTED]
[REDACTED]
1111 Constitution Ave, N.W.
Washington, D.C. 20224

These symbols do not refer to your case but rather to its location.

Sincerely,

[REDACTED]
[REDACTED]
Chief, Exempt Organizations
Technical Branch 3

[REDACTED]

CC:

[REDACTED]

CC:

[REDACTED]

[REDACTED]

[REDACTED]

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